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RUEHBR/AMEMBASSY BRASILIA PRIORITY 1209
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UNCLAS SECTION 01 OF 02 PORT AU PRINCE 001648

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SUBJECT: GOH FY07 BUDGET: MOVING FORWARD BUT SLOWLY

REF: PAP 1483

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¶1. This message is sensitive but unclassified: please protect accordingly.

¶2. (U) Summary: President Rene Preval's economic advisor Gabriel Verret told econoff Sept 6 that finance minister Daniel Dorsainvil is discussing his FY07 budget informally with parliament, but has not yet presented it officially. Dorsainvil verified August 29 that the budget was in the final stages of preparation and that a draft of the budget had been already been presented to parliament. The minister of finance presents the government's budget to the parliament, which must approve it by majority vote in both houses. Reportedly, because of the ongoing discussions between the ministry of finance and parliament during the drafting of the budget, the approval process should not take the entire three months allotted to parliament by the constitution. Verret expressed some concern about pork barrel politics in parliament, but hoped that country-wide NGO projects would alleviate it. The IMF estimates the current financing gap for FY07 to be US \$9.6 million, which IMF resrep Ugo Fasano told Dorsainvil needs to be reduced to zero before the budget is presented to the IMF board regarding Haiti's Poverty Reduction and Growth Facility (PRGF) eligibility. End summary.

Budget Process

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¶3. (U) The operations portion of the budget is drafted by the ministry of finance and the investment portion by the ministry of planning, which is presented to parliament by the minister of finance. According to the constitution, the chamber of deputies, finance commission approves the budget before passing it forward for the entire chamber's approval. Then the senate's finance commission must approve the budget, followed by the entire senate body. Should parliament make changes to the budget, they return the document to the executive for final approval or further changes. In the

event that the executive makes further changes, the budget will start the process over with the chamber of deputies, finance commission. If, the second time around, both the deputies and the senators approve further changes, the GOH is obligated to publish the budget as is. The constitution also states that the GOH should present the budget by the end of June for parliament's final approval by the end of September.

Awaiting the results of the July donors, conference, the GOH delayed initiation of the process.

GOH Fears Potential Pork Barrel Politics

14. (SBU) Verret said that GOH officials fear the parliamentarians will use the budget to "flex their muscles," citing Senator Youri Latortue, who has threatened not to vote in favor of the budget unless it includes the creation of a national army. Latortue aside, the parliamentarians have not made a lot of noise about the budget: a few have expressed reservations in local press reports. Separately, employees at the planning ministry told econoff that they plan to send a budget annex to parliament. The annex will inform parliamentarians about country-wide projects which are funded by international donors through NGOs, and are not included in the GOH budget. Presumably, this will help cut down on potential pork-barrel conflicts.

FY07 Financing Gap Persists at US \$9.6 Million

15. (SBU) According to Verret, the FY07 budget financing gap is US \$9.6 million, which Dorsainvil said he would prefer to address during the second half of the fiscal year, if the gap persists. Verret reported that Dorsainvil told the IMF that in the event of obvious financing gap mid-year, he will request assistance from the donor community or will work to

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lower GOH expenditures. IMF resrep Ugo Fasano asked Dorsainvil to clarify his plans, and to close the gap, before the budget is presented to the IMF board to determine Haiti's eligibility for the poverty reduction and growth facility (PRGF) this month. (Verret said it was supposed to be presented to the IMF board today, September 6, but that Fasano pulled it from the agenda because the budget was not ready.)

16. (SBU) Reportedly, Fasano told Dorsainvil he should consider closing the gap by delaying the EU disbursement of 10 million euros until after September 31. Verret told econoff he endorsed this idea because he does not think the GOH can usefully spend the 10 million euros by the end of this month anyway. Verret also stressed that government revenues have been stronger than ever: 1.8 million Haitian gourdes (about US \$46,000) for the month of August and an estimated 1.5 million Haitian gourdes (about US \$38,000 million) for September. (Note: The GOH has not clarified its plans regarding salary arrears and severance pay as outlined in the Social Appeasement Program (Programme d'Apaisement Social -- PAS). This possibly accounts for the discrepancy between the IMF and Verret on one hand, and Dorsainvil on the other, regarding GOH financing needs before the end of this fiscal year. End note.)

17. (SBU) Comment: Taking into account the inauguration of the new government in mid-May and the donors, conference at the end of July, the GOH is moving the budget process as quickly as can be expected. The GOH gave a draft of the budget to the parliamentarians in advance of the official presentation which should speed up the final approval process. Both Verret and Dorsainvil are confident that parliament will approve the budget, if not by the end of the month then shortly thereafter, despite the probability that the parliamentarians will seek changes.

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